A Plan for Pro-Consumer, Pro-Rural High-Cost Universal Service Reform

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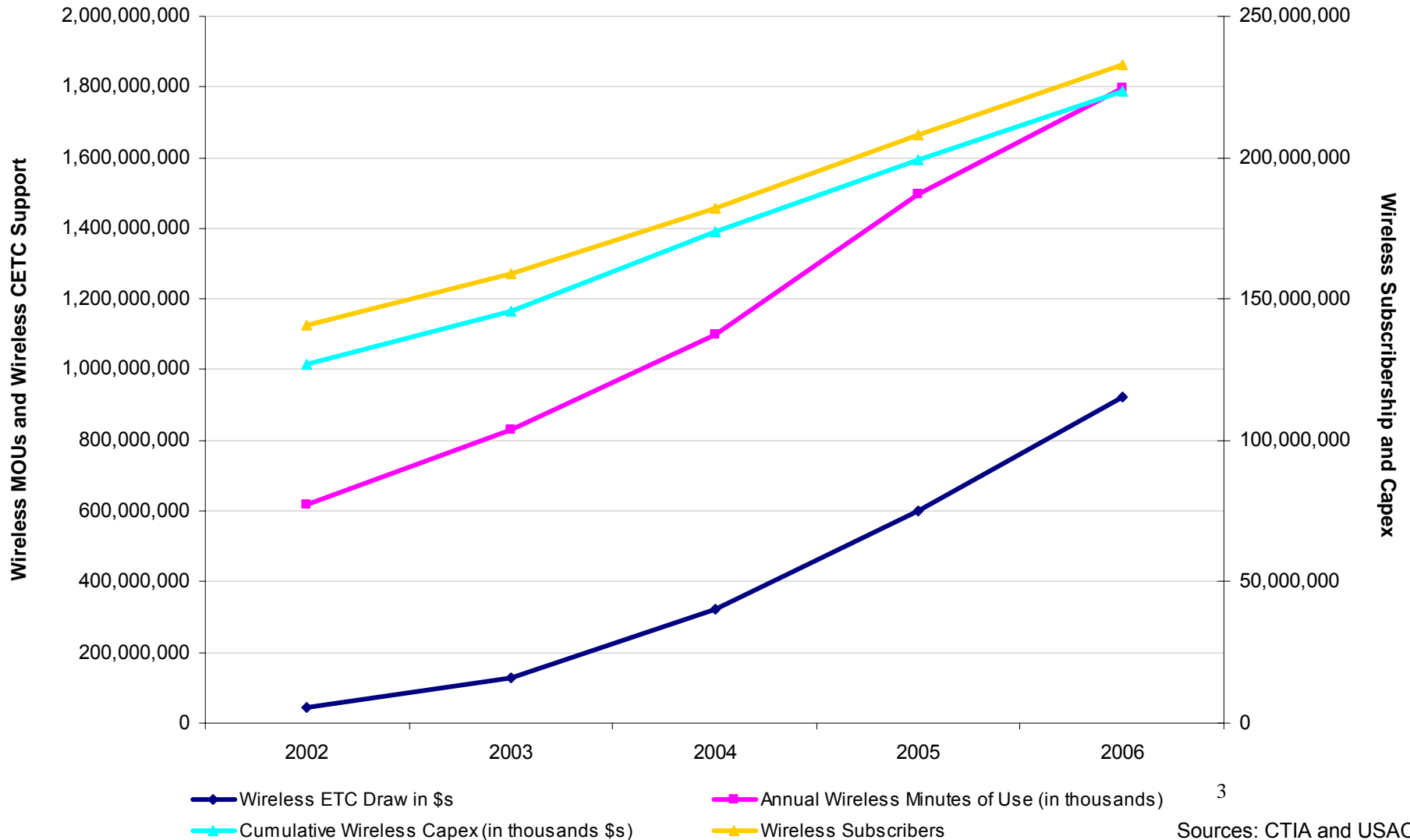
March 2007

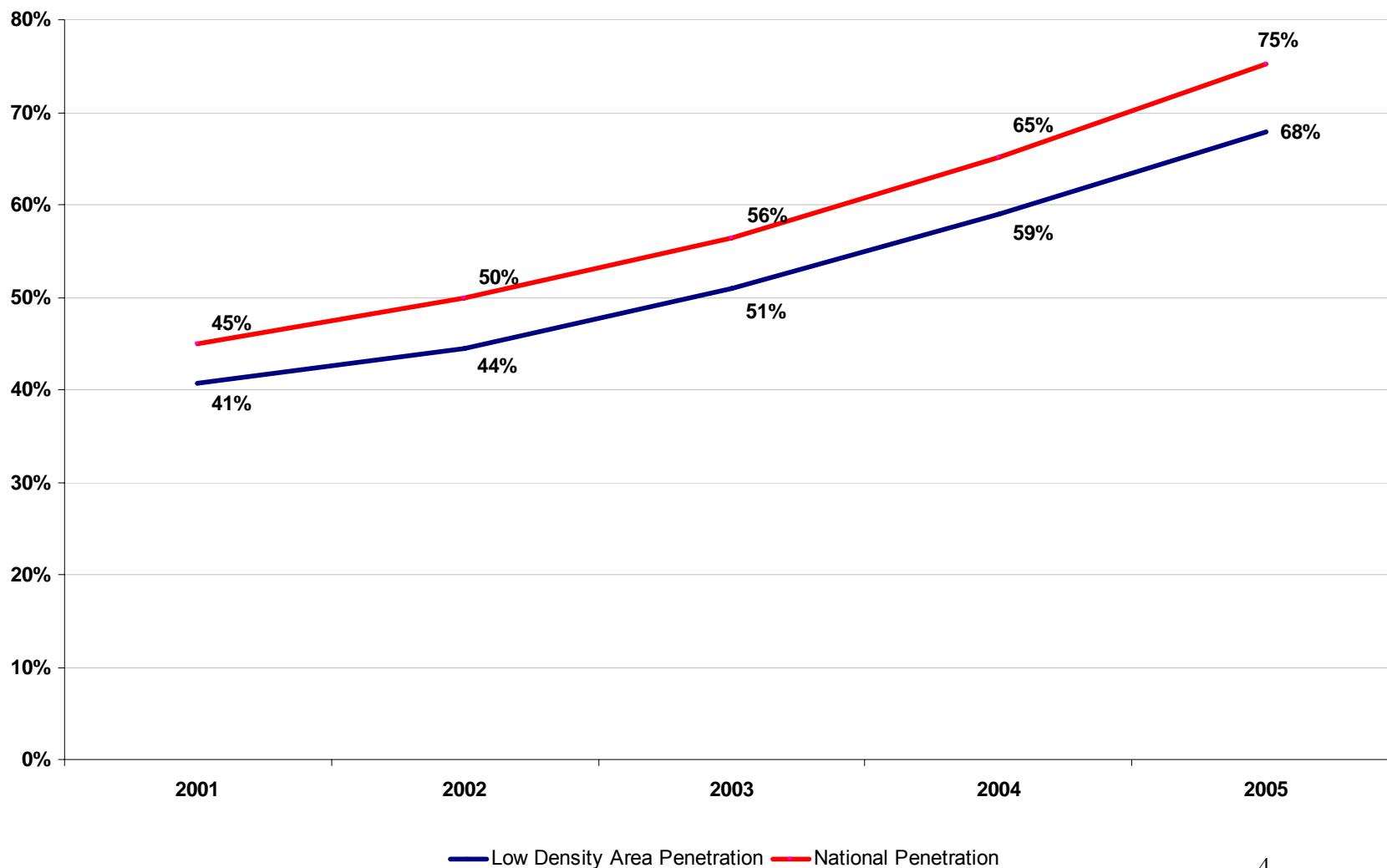# It's About Consumers

- <u>Consumers</u> are the only intended beneficiaries of universal service.

- Key Principles:
  - Universal Service Funding Should Be Driven By and Reflect Evolving and Exploding Consumer Demand For Broadband and Mobile Services
  - High-Cost Funding Should Be No Greater Than Necessary to Achieve Universal Service Goals

- Current Reality:
  - The Allocation of Federal Universal Service Funding Does Not Reflect Consumer Demand and Does Not Adequately Promote Efficient Investment in Broadband and Mobile Services
  - The Federal Universal Service Mechanisms Give Too Much to Some and Too Little to Others

- Solutions:
  - Short Term – Reduce and Cap the Fund
  - Medium Term – Transition to Unified, Market-Based Mechanism
  - Long Term – Reverse Auctions?

# Concerns About Wireless USF Growth Overlook the Wireless Industry's Track Record

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Comparing Wireless CETC USF Support and Wireless Industry Metrics' Trends

Legend:
- Wireless ETC Draw in $s
- Annual Wireless Minutes of Use (in thousands)
- Cumulative Wireless Capex (in thousands $s)
- Wireless Subscribers

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Sources: CTIA and USAC

Rural and National Wireless Penetration: Rural Equated with Fewer than 100 Pops per Square Mile

Source: Annual CMRS Competition Reports

Total Estimated Rural Wireless Subscribership

Source: Annual CMRS Competition Reports
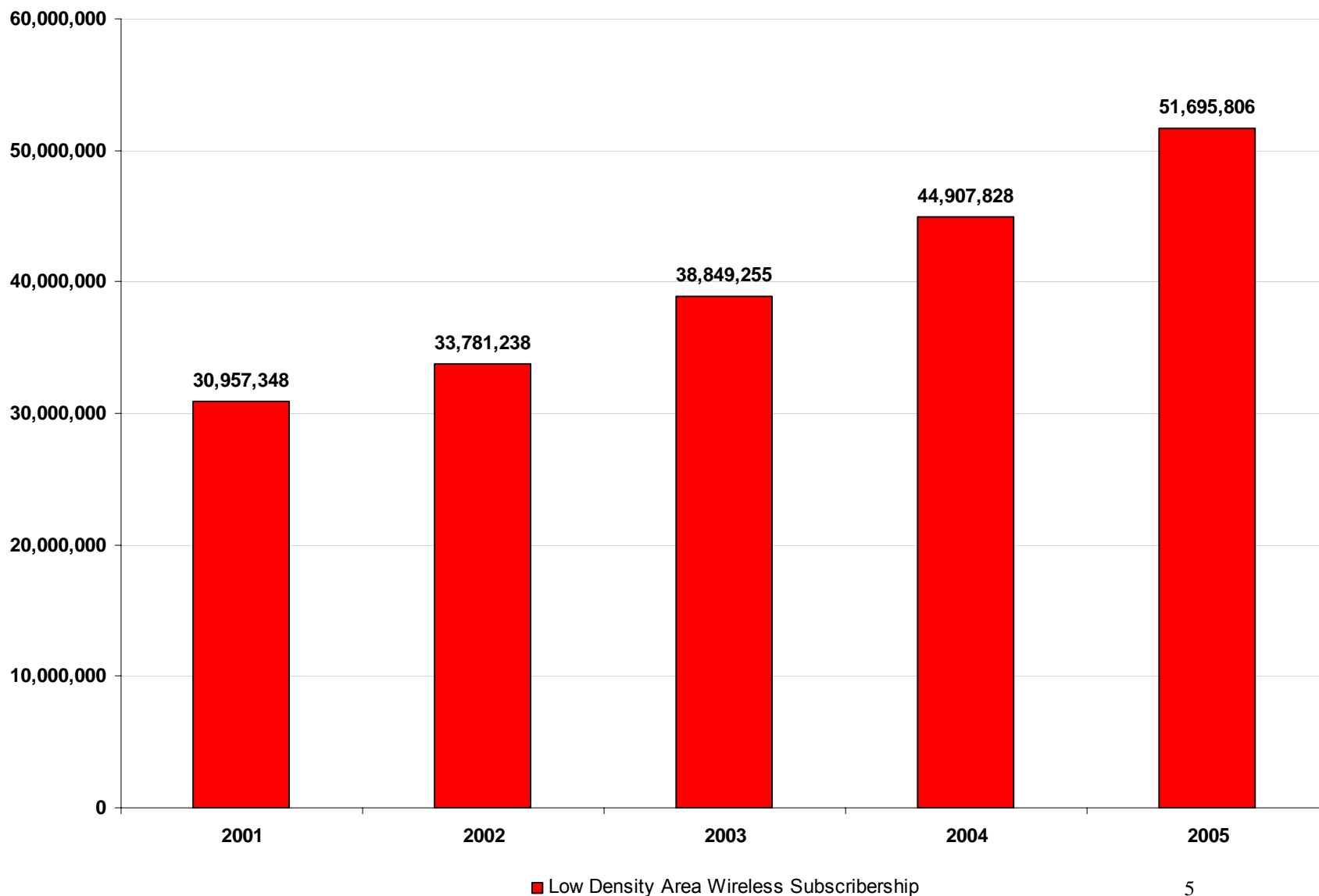
Wireless Minutes of Use Have Consistently Climbed in Double-Digits Year-over-Year

Source: CTIA Semi-Annual Wireless Survey
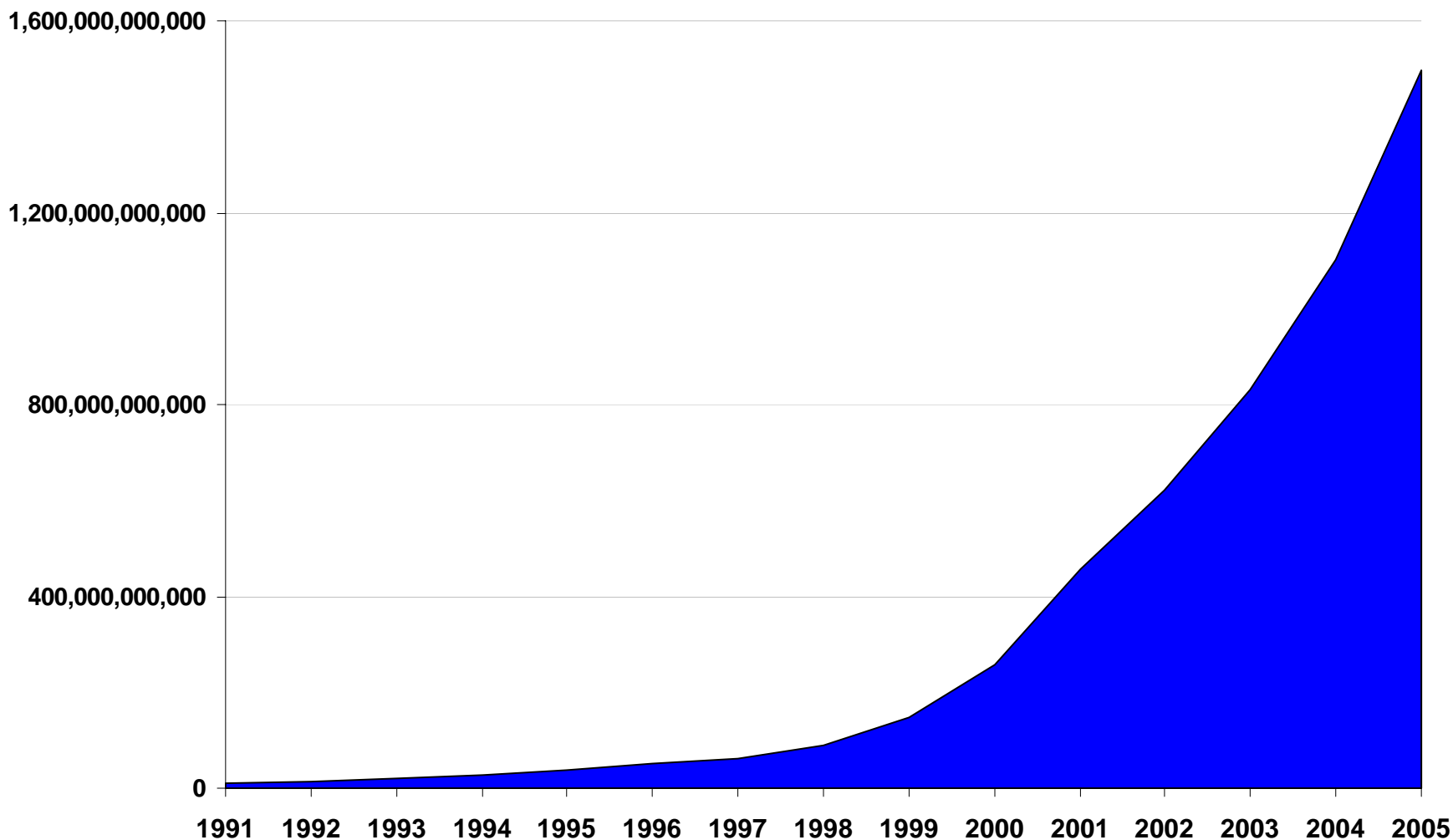
The Growth of Wireless-only Households

- National Center for Health Statistics has been tracking the growth of wireless-only households over the past three years – including year-to-year trends, and the different distribution of such households across the country. As of Jan.-June 2006:

  – About 10.5% of households do not have a traditional landline telephone, but do have at least one wireless telephone. About 9.6% of all adults (21 million) and 8.6% of all children (>6 million) live in households with only wireless telephones.

  – Across all age groups, individuals living in poverty are more likely than higher income individuals to be living in households with only wireless telephones (15.8%).

The Growth of Intermodal Competition

- If forced to choose, a majority of consumers would keep their wireless phone service instead of their landline phone service. This survey would not include the approximately 10.5% of households that have already chosen to be wireless only.
  - Question: "If you could keep one service, would you keep your cell phone service or your home landline phone service?"

- 70% of consumers surveyed support a greater portion of the universal service funding to help cell phone companies improve the quality of cell phone service in rural and high-cost areas, while only 16% oppose.
  - Question: "You are currently charged about $1 a month for a "universal service" fee on landline phone bills and cell phone bills in part to enable telecom carriers to provide service in rural and other high-cost areas. About 75% of the funds currently go toward providing landline phone services. Would you support or oppose using a greater portion of the universal service funding to help cell phone companies improve the quality of cell phone service in rural and high-cost areas?"

Source: MyWireless.org® National Consumer Survey (conducted March 6-8, 2007).
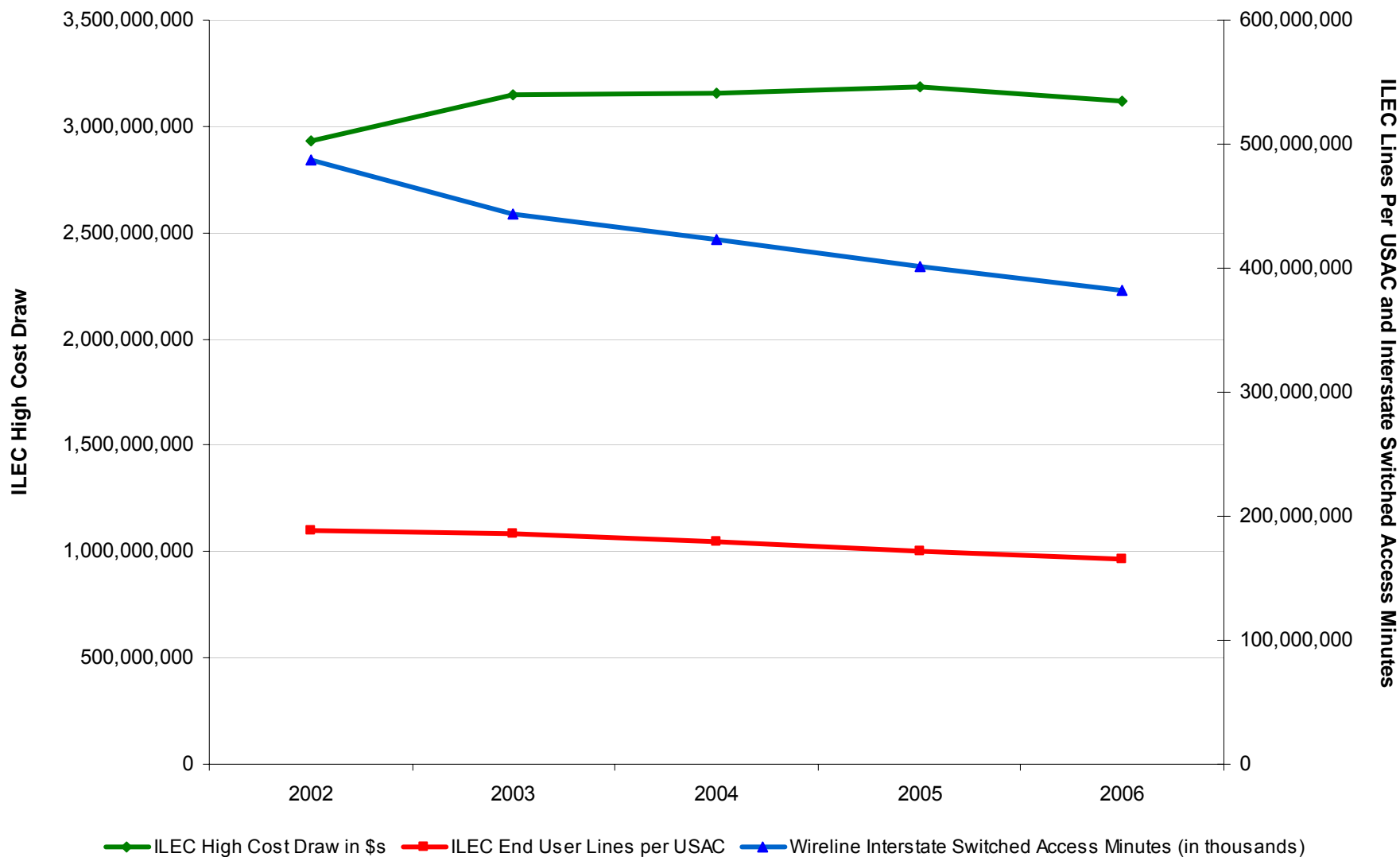
High-Speed Line Growth

- In 1H06, total high-speed lines grew 26%, from 51.2 million to 64.6 million lines, and 59% of all adds were mobile wireless subscriptions.

- From June 2005 to June 2006:
  - ADSL's share of total broadband lines fell from 38% to 35%,
  - Cable modem's share fell from 56% to 44%.
  - Mobile wireless' share of total broadband lines rose from 1% to 17% of total broadband lines.
  - The share of "other" forms of broadband (including fixed wireless, satellite, fiber, and broadband over power line) remained at 4% of total broadband lines – although their total line count grew 39%.
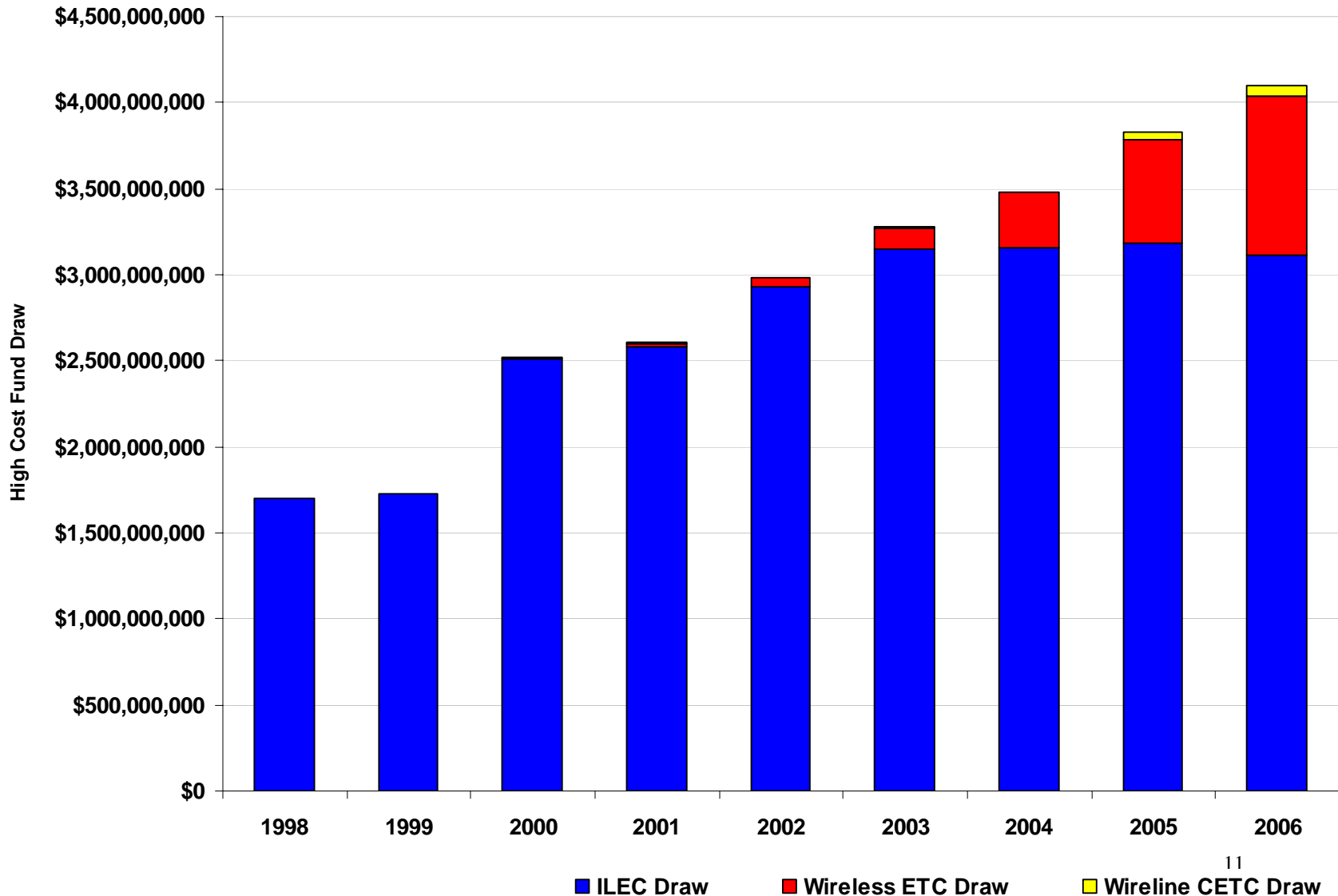
High Speed Net Adds by Type, Dec. 2005 – June 2006
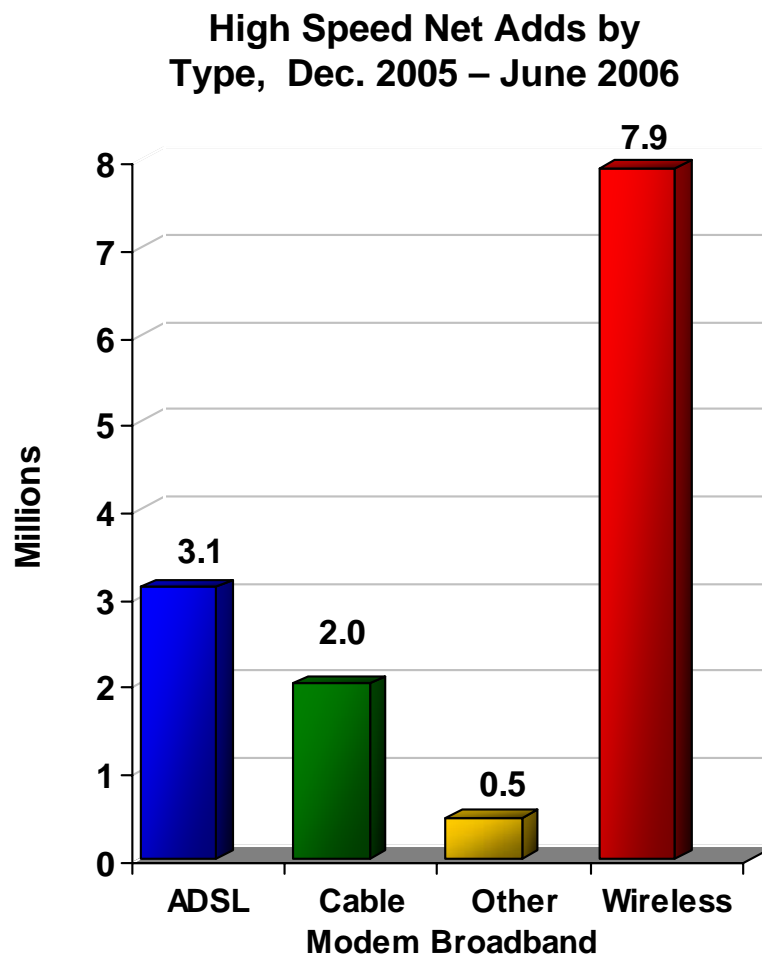
Sources: FCC Report on "High-Speed Services for Internet Access," Jan. 2007.

Comparing ILEC USF Support and ILEC Metrics

Legend: ILEC High Cost Draw in $s — ILEC End User Lines per USAC — Wireline Interstate Switched Access Minutes (in thousands)

Sources: FCC NECA Data and USAC

But, the Distribution of High Cost Support Favors Wireline Incumbents

Source: USAC Data

Wireless and Wireline Shares of Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 - 2005

ILEC Support

$20,939,911,241

94.7 % of all High Cost Support

Wireless ETC Support
$1,115,001,219

5.0 % of all High Cost Support

Wireline CETC Support
$52,654,862

0.3 % of all High Cost Support

Source: USAC Data

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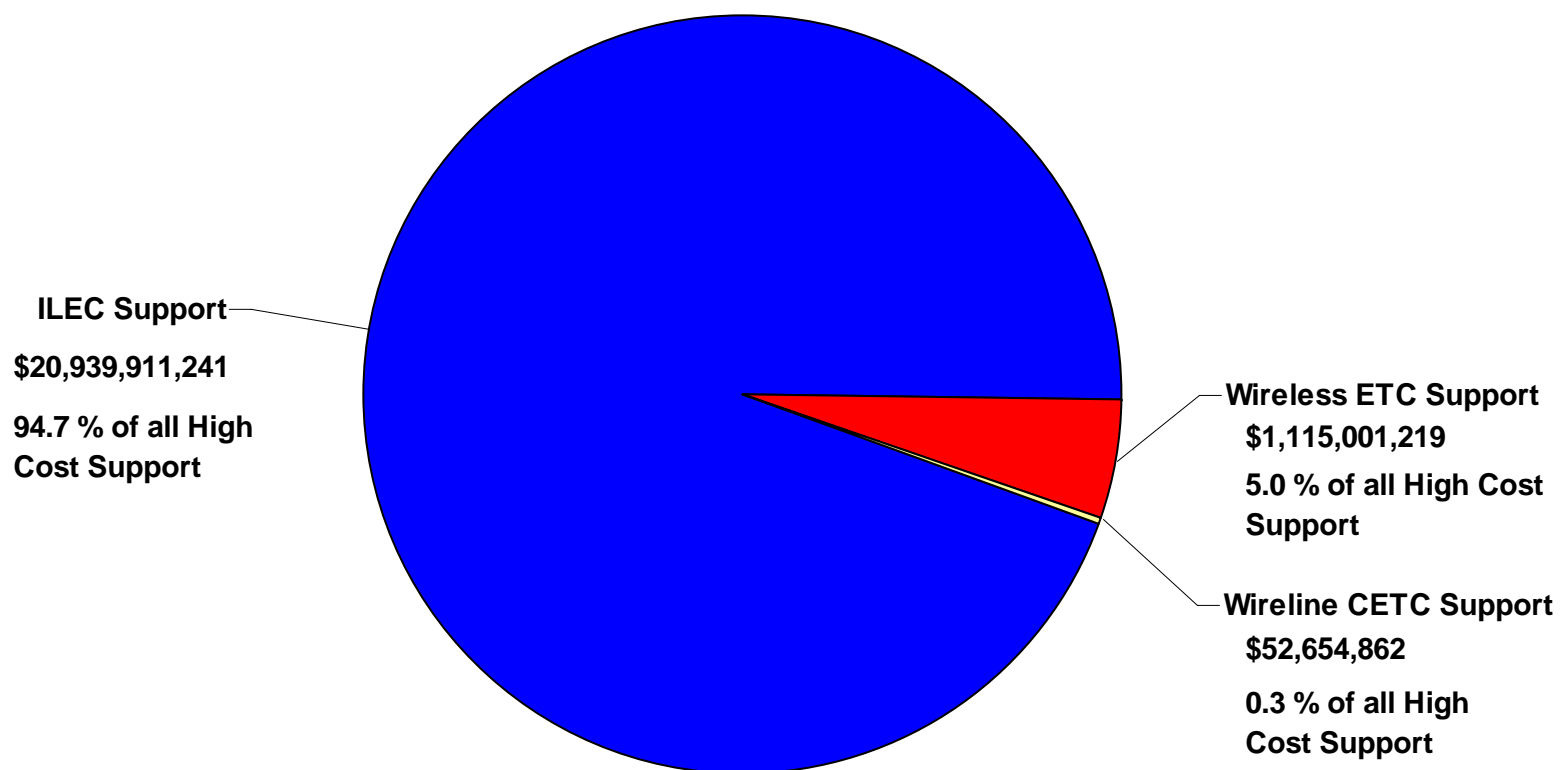
Key Elements of Any High-Cost Universal Service Mechanism

- Promote and Reward Efficient Investment in Mobile and Broadband Services.

- Avoid Discriminatory Regulations that Distort the Market.

Universal Service Reform

- Should occur in stages:
  - Short Term (Implement between now and January '08):
    - Reduce the fund by making sure that all larger carriers and their competitors are subject to the same rules. Transition ILECs with ≥ 50,000 access lines in a state (and their competitors) to model-based support; and
    - Establish a technology-neutral cap on high-cost support available in a particular service area. We oppose discriminatory, market-distorting separate wireless and wireline caps.
  - Medium Term (Implement January '09):
    - Transition remaining ILECs (and their competitors) to a single model-based support mechanism that accounts for rural differences; and
    - Perform reverse auction pilots.
  - Long Term (Implement January '11):
    - If pilots successful, rollout reverse auctions nationally.

Universal Service Reverse Auctions

- CTIA supports competitively- and technology-neutral reverse auctions to determine high-cost universal service support.
  - As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource.
  - Universal service auctions have worked well in other countries and can work in the United States.
  - If properly designed, reverse auctions can serve as a market-oriented means to place disciplines on the size of the universal service fund while still achieving important universal service goals.

- CTIA also continues to support other reforms to better target support and encourage and reward efficiency.

- Key elements to CTIA's support for reverse auctions:
  - The pool of eligible bidders must be maximized.
  - Wireless and wireline ETCs should compete in the same auction.
  - "Winner Gets More" auctions.*

  * Only one "winner", but "losers" eligible for some lesser amount of per-line support.